Setting a Context

For the third straight year, the state is facing a difficult budget problem in 2004. To effectively address the problem, the Legislature will have to consider the proposals made by the administration, but also other options -- including revenue increases and additional savings proposals -- to fully address California's budget shortfall.

In early March the Senate Budget and Fiscal Review Committee will begin its regular subcommittee hearing process, which will conclude shortly after the Governor releases his May Revision to the Budget.

Proposed Total State Spending for 2004-05

Total spending proposed for 2004-05 from all funds (General Fund, special funds, and bond funds) is $99.1 billion. General Fund spending is $76.1 billion, an amount that is approximately $2 billion, or 2.5 percent, less than current-year spending.

General Fund Summary

Revenues: The Governor's budget estimates General Fund revenues for 2004-05 to be $76.4 billion, an increase of $1.8 billion above 2003-04 (not including bond proceeds).

Expenditures. The budget proposes General Fund expenditures of $79.1 billion in 2004-05. However, it is assumed that General Fund expenditures in 2004-05 will be offset by $3 billion in estimated bond proceeds from the March 2004, California Economic Recovery Bond Act.

The proposed budget assumes a modest reserve at the end of 2004-05 of $635 million.

Proposed Governor's 2004-05 Budget (including mid-year proposals)

Definition of the Problem. The Governor's proposed budget for 2004-05 identifies an accumulative General Fund deficit of $16.2 billion (difference between revenues and expenditures for the three-year period ending on June 30, 2005).

How Does the Governor Close the Deficit? In eliminating the deficit, the Governor relies on the following primary strategies:

- $3 billion in Economic Recovery Bond revenue proceeds pursuant to the California Economic Recovery Bond Act (Chapter 2, Statues of 2003, Fifth Extraordinary Session).
- Spending reductions of $5.9 billion (primarily in the areas of health and human services programs, higher education, and a property tax shift from local governments to schools).
- Proposed "re-basing" (suspension) of Proposition 98 for a savings of $2.9 billion.
- $1.3 billion in debt service savings resulting from the longer repayment period of the Economic Recovery Bond.
- $950 million from the proposed suspension of Proposition 42 (Transportation Congestion Improvement Act).
- $950 million from a "pension reform" package that includes (a) a pension obligation bond, (b) increased employee contributions, and (c) reduced retirement benefits for new employees.
- $1.2 billion in other transfers, fund shifts, loans, consolidations, and cost avoidance.